

Message Text

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SUBJ: YUGOSLAV AIR COMPANIES PREPARING TO MERGE

1. SUMMARY: YUGOSLAV AIR TRANSPORT (JAT) AND TWO SMALLER COMPANIES ARE IN PROCESS OF PREPARING FOR MERGED OPERATIONS BY JANUARY 1975. MERGER, LONG DESIRED BY JAT, IS EXPECTED TO ELIMINATE "WASTEFUL COMPETITION" IN SMALL DOMESTIC MARKET, PROVIDE FOR MORE EFFICIENT UTILIZATION OF RESOURCES, AND GIVE COMBINED OPERATION BETTER FINANCING OPPORTUNITIES FOR EXPANSION. JAT AS LARGEST AIR COMPANY WILL PROBABLY COME TO DOMINATE NEW OPERATION AND SEES MERGER AS STEP TOWARD COMPLETE UNIFICATION YUGOSLAV AIR SERVICES. END SUMMARY

2. YUGOSLAV PRESS REPORTS YUGOSLAV AIR TRANSPORT (JAT), "INEKS-ADRIA," AND PAN ADRIA ARE PREPARING TO MERGE.

3. THE THREE COMPANIES ARE CURRENTLY GOING THROUGH
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A POLITICAL-ADMINISTRATIVE PROCESS OF SECURING THEIR EMPLOYEES CONSENT TO MERGE, IN ACCORDANCE WITH

SELF-MANAGEMENT PRINCIPLES HERE, AND THEY HOPE TO SET UP A UNIFIED MANAGEMENT ORGAN AND TO BEGIN OPERATION AS A MERGED "YUGOSLAV AIRWAY SYSTEM" BY JANUARY 1975.

4. ONCE MERGER ACCOMPLISHED, A SPECIALIZATION OF SERVICE BASED ON PREVIOUS COMPANY OPERATIONS IS FORESEEN. JAT WILL BE RESPONSIBLE FOR SCHEDULED INTERNATIONAL SERVICE AND BE THE PRIMARY DOMESTIC CARRIER. INEX-ADRIA WILL FLY EUROPEAN AND MEDITERRANEAN CHARTERS. PAN ADRIA WILL SPECIALIZE IN MAIL SERVICE, AND PASSENGER SERVICE ON SECONDARY DOMESTIC ROUTES. OVERSEAS CHARTER FLIGHTS WILL BE THE RESPONSIBILITY OF "AIR YUGOSLAVIA", A JAT SUBSIDIARY.

5. ACCORDING TO JAT OFFICIALS, DEVELOPMENT OF FLEET AND PERSONNEL, TECHNICAL MAINTENANCE AND TRAINING, FINANCING OF EXPANSION, INSURANCE, AND SCOPE OF EXPANSION WILL BE FUNCTIONS OF THE MERGED MANAGEMENT BODY.

6. MAJOR ADVANTAGES FORESEEN ARE BETTER FINANCING POSSIBILITIES, MORE EFFICIENT UTILIZATION OF CAPACITY, GENERAL ECONOMIES IN TECHNICAL MAINTENANCE AND TRAINING, AND ELIMINATION OF CUT-THROAT COMPETITION AMONG YUGOSLAV AIR COMPANIES IN RELATIVELY SMALL DOMESTIC MARKET.

7. COMMENT: SENIOR JAT OFFICIALS HAVE TOLD THE EMBASSY THAT MERGER IS A "SERIOUS BUT INCOMPLETE MOVE" TOWARD WHAT THEY HOPE WILL EVENTUALLY BE ONE UNIFIED AIR COMPANY. JAT HAS BEEN TRYING TO ACCOMPLISH SOME TYPE OF MERGER FOR OVER A YEAR, IN ORDER BOLSTER ITS AMBITIOUS EXPANSION PLANS IN INTERNATIONAL MARKET AND CURRENT PROPOSAL APPARENTLY REPRESENTS MOST NOW POSSIBLE. IT IS REPORTEDLY BEING ACCOMPLISHED IN PART WITH GOY, TRADE UNION AND LCY PRESSURE ON THE SMALLER COMPANIES. JAT, AS THE LARGEST COMPONENT OF THE LIMITED OFFICIAL USE
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MERGER, IS EXPECTED TO EVENTUALLY DOMINATE IT THROUGH ITS MANAGEMENT AND TECHNICAL CADRE. JAT OFFICIALS SAY AVIOGENEX MAY BE INCLUDED IN THE MERGER IN A FEW MONTHS. MAJOR DIFFICULTY IS AVIOGENEX'S RUSSIAN FLEET WHICH IS NOT PAID FOR AND JAT APPARENTLY DOES NOT WANT TO ASSUME OBLIGATIONS, WHICH MAY BE MORE THAN FINANCIAL, TO THE SOVIETS. RECENT PURCHASE OF TWO 727'S BY AVIOGENEX IS STEP CLOSER TO MERGER.
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